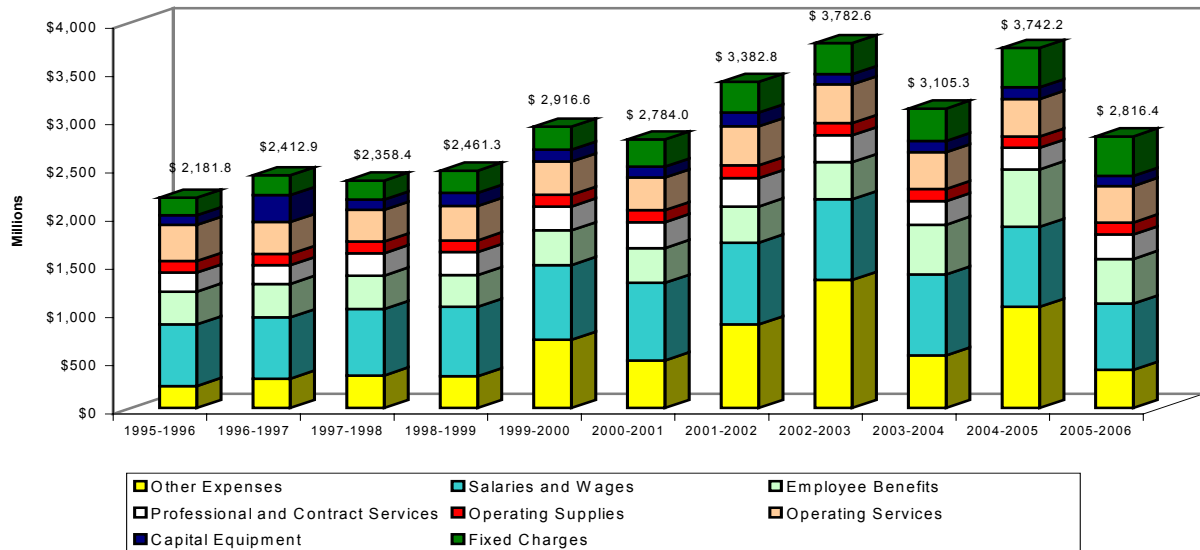


CITY OF DETROIT APPROPRIATIONS FOR FISCAL YEAR 1995-1996 THROUGH FISCAL YEAR 2005-2006

The following schedule and chart show the total budgeted appropriations for the eleven fiscal years from 1995-1996 through 2005-2006. The amounts noted on the chart indicate the total budgeted appropriation amounts for each fiscal year in millions. The information for fiscal years 1995-1996 through 2004-2005 is from the adopted budget for that fiscal year, and the information for fiscal year 2005-2006 is from the Mayor's Proposed Budget.



In Millions									
Fiscal Year	Salaries and Wages	Employee Benefits	Professional and Contract Services	Operating Supplies	Operating Services	Capital Equipment	Fixed Charges	Other Expenses	Total
1995-1996	\$ 638.5	\$ 340.0	\$ 196.8	\$ 121.8	\$ 373.0	\$ 100.4	\$ 183.3	\$ 228.0	\$ 2,181.8
1996-1997	635.8	346.3	195.3	115.4	332.1	279.0	204.7	304.3	2,412.9
1997-1998	689.9	345.9	232.1	121.5	327.9	105.7	198.2	337.2	2,358.4
1998-1999	719.8	329.7	238.1	121.5	357.7	136.4	229.5	328.6	2,461.3
1999-2000	773.8	360.3	246.9	122.1	344.9	123.5	236.6	708.5	2,916.6
2000-2001	804.0	361.4	268.4	123.5	339.1	113.7	280.7	493.2	2,784.0
2001-2002	848.1	374.8	293.9	133.9	402.5	143.7	319.3	866.6	3,382.8
2002-2003	835.8	386.9	278.1	126.8	400.7	106.5	320.0	1,327.8	3,782.6
2003-2004	840.2	516.7	244.8	124.8	382.5	116.8	336.0	543.5	3,105.3
2004-2005	830.0	597.6	224.5	116.5	390.3	121.7	408.4	1,053.2	3,742.2
2005-2006	689.2	461.5	254.2	124.2	378.5	105.1	409.2	394.5	2,816.4

SALARIES AND WAGES

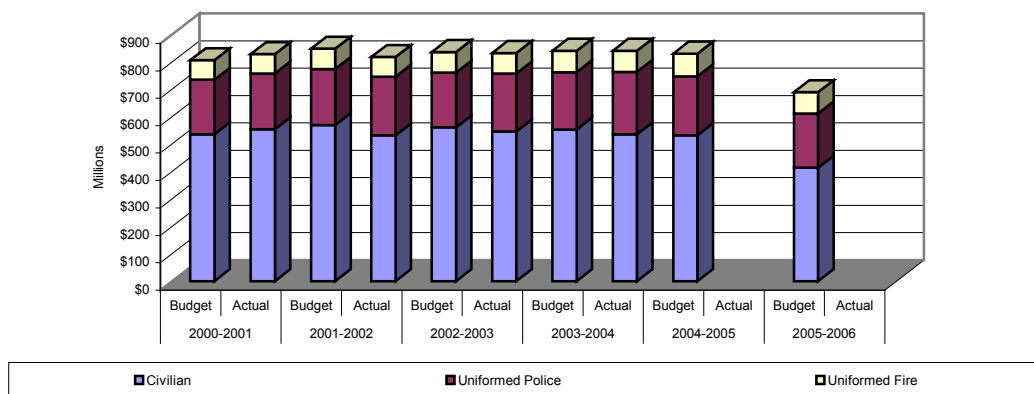
The 2005-2006 Mayor's Proposed Budget includes \$689.2 million for Salaries and Wages, a decrease of \$140.8 million (17%) from the 2004-2005 Budget. The \$140.8 million decrease is the net effect of salary adjustments, eliminating the Civic Center and the Department of Transportation, and reductions in the number of funded positions. The following comparative schedule shows the amount of Salaries and Wages included in the 2005-2006 Mayor's Proposed Budget and the 2004-2005 Budget:

	In Millions		
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Civilians	\$ 413.3	\$ 532.0	\$ (118.7)
Uniform Police	197.9	214.8	(16.9)
Uniform Fire	78.0	83.2	(5.2)
Total Salaries and Wages	<u>\$ 689.2</u>	<u>\$ 830.0</u>	<u>\$ (140.8)</u>

Salary Adjustments

The 2005-2006 Mayor's Proposed Budget includes a decrease of \$45.9 million in Salaries and Wages due to 10% salary cuts for the Mayor, appointees, union, and non-union employees. Proposed salary cuts for union employees¹ will be accomplished by requiring days off without pay (26 days annually), and is contingent upon agreements with the various bargaining units. The Mayor's Budget assumes agreements will be reached with all bargaining units by the beginning of fiscal year 2005-2006.

The proposed budget excludes all merit and step pay increases for fiscal year 2005-2006. According to the Budget Department, omitting pay increases from the budget will not cause under-funding due to staff turnovers during the 2005-2006 fiscal year. Merit and step pay increases are contract-negotiated items. Actual Salaries and Wages exceeded budget by \$705,610, for fiscal year 2003-2004. The chart below compares actual Salaries and Wages to budget for fiscal year 2000-2001 through fiscal year 2003-2004, budgeted Salaries and Wages for fiscal year 2004-2005 and projected Salaries and Wages for fiscal year 2005-2006.



¹ Excluding Police and Fire

For fiscal year 2003-2004, actual Salaries and Wages for Civilians fell below budgeted levels by \$17.6 million or 3.2%. The schedule below compares budgeted Salaries and Wages for Civilian and Uniform employees for the fiscal years 2000-2001 through 2003-2004, budgeted Salaries and Wages for fiscal year 2004-2005, and the proposed fiscal year 2005-2006 Salaries and Wages. Actual Salaries and Wages for fiscal years 2004-2005 and 2005-2006 are not available and are indicated with an N/A.

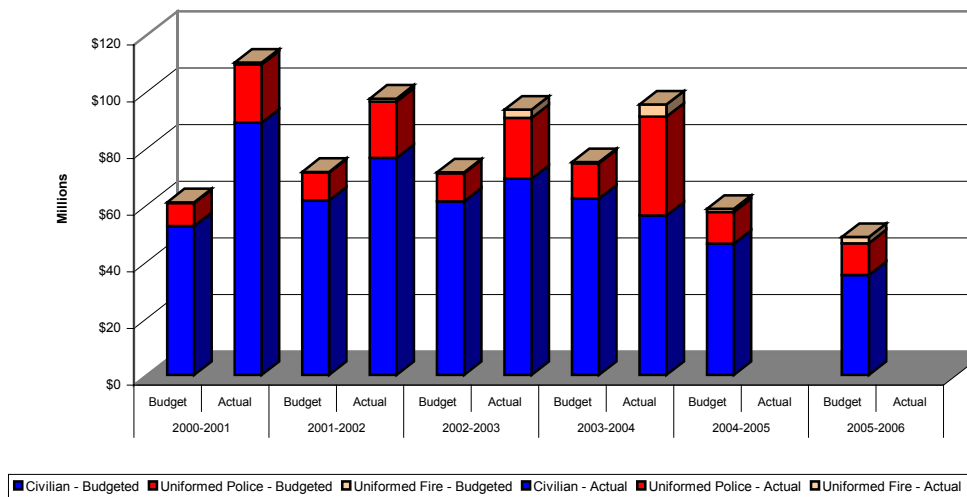
In Millions									
Fiscal Year	Civilian			Uniform Police and Fire			Total		
	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
2000-2001	\$ 535.6	\$ 553.5	\$ 17.9	\$ 268.4	\$ 274.7	\$ 6.3	\$ 804.0	\$ 828.2	\$ 24.2
2001-2002	569.3	531.1	(38.2)	278.7	286.7	8.0	847.9	817.8	(30.1)
2002-2003	560.5	545.6	(14.9)	275.2	286.4	11.2	835.7	832.0	(3.7)
2003-2004	552.8	535.2	(17.6)	287.4	305.8	18.4	840.2	841.0	0.8
2004-2005	532.0	N/A	N/A	298.0	N/A	N/A	830.0	N/A	N/A
2005-2006	413.3	N/A	N/A	275.9	N/A	N/A	689.2	N/A	N/A

In fiscal year 2003-2004, Police Salaries and Wages exceeded its budget by \$18.7 million or 8.2%. The schedule below compares budgeted Salaries and Wages for Uniform Police and Fire employees for fiscal years 2000-2001 through 2003-2004, budgeted Police and Fire Salaries and Wages for fiscal year 2004-2005, and the Mayor's Proposed 2005-2006 Salaries and Wages. Actual amounts are not available for fiscal years 2004-2005 and 2005-2006 and are indicated with an N/A.

In Millions									
Fiscal Year	Uniformed Police			Uniformed Fire			Total		
	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>	<u>Budgeted</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
2000-2001	\$ 197.0	\$ 204.2	\$ 7.2	\$ 71.4	\$ 70.5	\$ (0.9)	\$ 268.4	\$ 274.7	\$ 6.3
2001-2002	204.6	215.1	10.5	74.1	71.6	(2.5)	278.7	286.7	8.0
2002-2003	200.0	211.7	11.7	75.2	74.7	(0.5)	275.2	286.4	11.2
2003-2004	209.7	228.4	18.7	77.7	77.4	(0.3)	287.4	305.8	18.4
2004-2005	214.8	N/A	N/A	83.2	N/A	N/A	298.0	N/A	N/A
2005-2006	197.9	N/A	N/A	78.0	N/A	N/A	275.9	N/A	N/A

In our opinion, the budgeted \$45.9 million in cost saving derived from salary pay cuts is questionable. The projected cost savings is based on twelve months or the entire 2005-2006 fiscal year; however, union endorsement of the pay cuts has not been forth-coming and concessions may not be reached by the beginning of the 2005-2006 fiscal year. Furthermore, in our opinion, relying on turnover savings to fund contracted pay raises is risky. Union negotiated pay raises are not contingent on staffing levels, or on filled or unfilled positions. If cost savings from turnover is not realized, negotiated pay raises will still need to be paid.

Salaries and Wages also include \$48.6 million in citywide overtime, a decrease of \$10.1 million or 17.0% from the fiscal year 2004-2005 budgeted amount of \$58.7 million. The chart below compares budgeted overtime to actual overtime expenditures for fiscal years 2000-2001 to 2003-2004, budgeted overtime for fiscal year 2004-2005 and the 2005-2006 fiscal year Mayor's Proposed citywide overtime.



Historically, actual overtime exceeds budgeted overtime citywide. The schedule below compares budgeted overtime to actual overtime for fiscal years 2000-2001 through 2003-2004, budgeted overtime for fiscal year 2004-2005, and the proposed 2005-2006 fiscal year overtime. Actual overtime for fiscal years 2004-2005 and 2005-2006 are not available and are indicated with an N/A.

Fiscal Year	Civilian			Uniform Police and Fire			Total		
			Over (Under)			Over (Under)			Over (Under)
	Budgeted	Actual	Budget	Budgeted	Actual	Budget	Budgeted	Actual	Budget
2000-2001	\$ 52.5	\$ 89.0	\$ 36.5	\$ 8.4	\$ 21.3	\$ 12.9	\$ 60.9	\$ 110.3	\$ 49.4
2001-2002	61.6	76.6	15.0	10.1	20.9	10.8	71.7	97.5	25.8
2002-2003	61.2	69.3	8.1	10.3	24.3	14.0	71.5	93.6	22.1
2003-2004	62.2	56.3	(5.9)	12.9	39.2	26.3	75.1	95.5	20.4
2004-2005	46.3	N/A	N/A	12.3	N/A	N/A	58.7	N/A	N/A
2005-2006	35.3	N/A	N/A	13.3	N/A	N/A	48.6	N/A	N/A

The schedule below compares budget to actual Uniformed Police and Fire overtime for fiscal years 2000-2001 through 2003-2004, Police and Fire overtime for fiscal year 2004-2005 through March 31, 2005, and the Mayor's Proposed Budget. Actual amounts not available are indicated by N/A. As shown below, at March 31, both Police and Fire had exceeded the overtime budgeted for the current year by \$5.0 million.

Fiscal Year	In Millions								
	Uniformed Police			Uniformed Fire			Total		
	<u>Budgeted</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
2000-2001	\$ 8.1	\$ 20.5	\$ 12.4	\$ 0.3	\$ 0.7	\$ 0.4	\$ 8.4	\$ 21.3	\$ 12.9
2001-2002	9.8	19.8	10.0	0.3	1.1	0.8	10.1	20.9	10.8
2002-2003	9.8	21.4	11.6	0.4	2.9	2.5	10.3	24.3	14.0
2003-2004	12.5	34.9	22.4	0.4	4.3	3.9	12.9	39.2	26.3
2004-2005 (A)	11.2	13.7	2.5	1.1	3.6	2.5	12.3	17.3	5.0
2005-2006	11.2	N/A	N/A	2.1	N/A	N/A	13.3	N/A	N/A

(A) For fiscal year 2004-2005, the schedule compares actual General Fund overtime through 3/31/2005 to the annual budget.

Eliminating the Civic Center and the Department of Transportation

The Mayor's Proposed Budget decreases Salaries and Wages for the Civic Center approximately \$2.0 million² from the 2004-2005 budget. The decrease is largely based on the assumption that a regional authority will be created to assume management of the Civic Center as of January 1, 2006 thereby eliminating the Civic Center as a City department. Based on this assumption, the Civic Center is budgeted for Salaries and Wages through December 31, 2005.

The Mayor's Proposed Budget decreases Salaries and Wages for the Department of Transportation (DDOT) approximately \$6.4 million³. The decrease is based on the assumption that an agreement transferring the management of DDOT to the Detroit Area Regional Transit Authority (DARTA) will be achieved by January 1, 2006. DARTA was created in May 2003 to plan, coordinate and improve the delivery of public transportation within the region and is comprised of the Regional Transportation Coordination Council (RTCC), the Suburban Mobility Authority for Regional Transportation (SMART), and members of the Detroit City Council.

In our opinion, reducing the Salaries and Wages appropriations based on the above assumptions is unreasonable. Budgeted positions for both the Civic Center and the DDOT risk being unfunded, if the planned separations are unsuccessful.

Reduction in Budgeted Positions

There are 1,978 fewer budgeted positions in the 2005-2006 Mayor's Proposed Budget, as compared to the 2004-2005 Budget. The Budget Department was unable to quantify the cost savings associated with the decrease in budgeted positions.

² The Budget Department projects approximately \$6.0 million as savings from the Civic Center, approximately \$2.0 million from salaries and wages and \$4.0 million from other operating expenditures.

³ The Budget Department projects \$10.0 million as savings from DDOT's wages and fringes, \$6.4 million from wages and \$3.6 million from fringes.

Number of Budgeted Positions

The following schedule shows the total number of positions in the 2005-2006 Mayor's Proposed Budget and the 2004-2005 Budget. Budgeted and actual positions for each agency are shown in the chart accompanying this section.

	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
Civilian Positions	11,283	13,048	(1,765)
Uniform Police	4,182	4,271	(89)
Uniform Fire	1,300	1,424	(124)
Total Uniform Positions	5,482	5,695	(213)
Total Number of Budgeted Positions	16,765	18,743	(1,978)

The decrease in the number of budgeted positions for civilians reflects 1,315 layoffs, and the net elimination of 663 budgeted positions

Layoffs

The Mayor's Proposed Budget includes layoffs of 670 employees. Also reflected in the total decrease of budgeted positions are 645 layoffs of employees in fiscal year 2004-2005, which were part of the Mayor's deficit elimination plan. Total layoffs include 242 positions in the Department of Public Works, 188 positions in the Police Department (87 police officers including 83 cadets), 147 positions in the Recreation Department, 144 positions in the Department of Transportation, 115 positions in the Finance Department, 93 positions in the Department of Health and Wellness Promotion, 87 positions in the Fire Department including 47 fire fighters and 17 emergency mobile medical technicians, 85 positions in 36th District Court, 45 positions in the Human Resources Department, 26 positions in the Law Department, and 143 positions in other City departments.

Net Elimination of Vacant Positions

The salaries and wages decrease reflects a net elimination of 663 vacant positions in various City agencies. Altogether 718 vacant positions are eliminated, while a net of 55 positions were transferred or added. The net elimination of budgeted positions includes 181 positions in the Water Department, 113 positions in the Sewerage Department, 107 positions in the Police Department (Civilian), 72 positions in the Fire Department, 38 positions in the Department of Transportation, 31 positions in the Finance Department, and the net elimination of 121 positions in other City departments.

Conclusion

The Budget Department has taken the "cushion" out of the Salaries and Wages budget. With little cushion for Salaries and Wages, and questionable assumptions, the proposed budget is relying on cost savings from employee turnover to supplant unbudgeted, contract mandated pay increases. The amount budgeted for Salaries and Wages is not reasonable. The likelihood that union approval of a 10% pay cut will be approved by July 1, 2005 is questionable; the assumptions that the Civic Center and the DDOT will separate from the City by December 31, 2005 are unfounded; and the assumption that actual overtime will not exceed budgeted overtime is inconsistent with the City's overtime trend.

**NUMBER OF EMPLOYEES BY DEPARTMENT
COMPARATIVE SUMMARY OF BUDGETED POSITIONS
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**

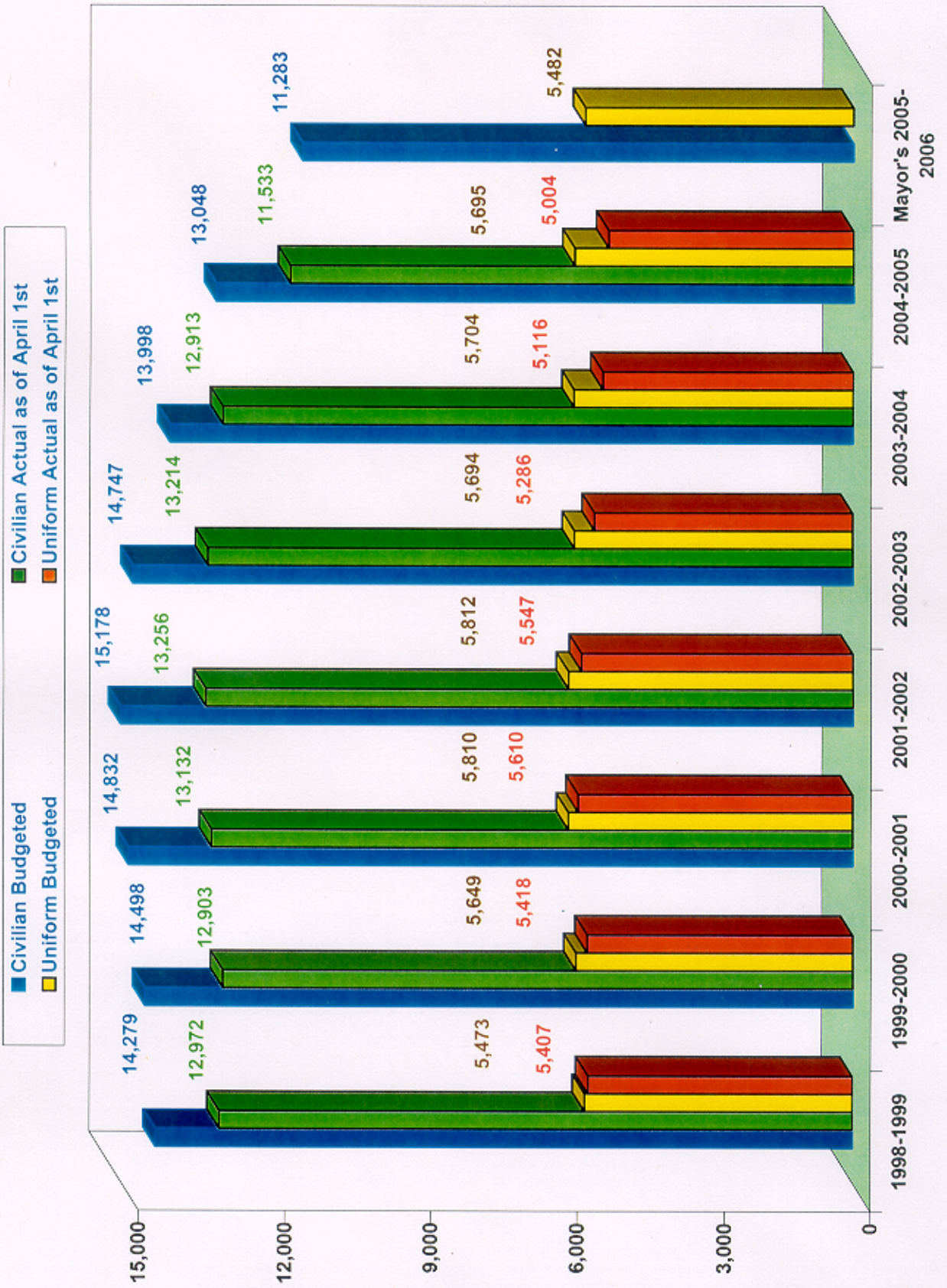
AGENCY	2005-2006		2004-2005		Actual as of 4/2005	
	Mayor's Budget		Budget			
	Number	% of Total	Number	% of Total	Number	% of Total
EXECUTIVE AGENCIES:						
11 Arts	-	0.00 %	-	0.00 %	-	0.00 %
12 Budget	24	0.14	31	0.17	28	0.17
14 Civic Center	83	0.50	84	0.45	72	0.44
15 Communications Department (A)	17	0.10	26	0.14	21	0.13
16 Consumer Affairs (B)	-	0.00	25	0.13	15	0.09
17 Department of Culture, Arts & Tourism (C)	-	0.00	12	0.06	10	0.06
19 Municipal and Environmental Services (D)	1,075	6.41	1,257	6.71	1,191	7.20
21 Detroit Workforce Development Department	95	0.57	95	0.51	84	0.50
22 Environmental Affairs (D)	-	0.00	26	0.14	23	0.14
23 Finance	343	2.05	489	2.61	400	2.42
24 Fire-Total	1,741	10.38	1,900	10.14	1,746	10.56
25 Department of Health and Wellness Promotion	457	2.73	612	3.27	520	3.14
26 Historical	15	0.09	31	0.17	29	0.18
28 Human Resources	322	1.92	377	2.01	322	1.95
29 Human Rights	8	0.05	23	0.12	20	0.12
30 Department of Human Services	138	0.82	162	0.86	146	0.88
31 Information Technology Services	153	0.91	121	0.65	114	0.69
32 Law	146	0.87	188	1.00	181	1.09
33 Mayor's Office	96	0.57	98	0.52	95	0.57
36 Economic Development (E)	245	1.46	267	1.42	244	1.48
37 Police	4,584	27.34	4,879	26.03	4,172	25.23
38 Public Lighting (D)	-	0.00	298	1.59	242	1.46
39 Community Services Department (F)	265	1.58	687	3.66	787	4.76
40 Senior Citizens (F)	-	0.00	9	0.05	14	0.08
44 Zoological Institute	153	0.91	171	0.91	135	0.82
45 Department of Administrative Hearings	6	0.04	6	0.03	4	0.02
46 Detroit Office of Homeland Security	52	0.31	6	0.03	6	0.04
47 General Services Department (G)	534	3.19	-	0.00	-	0.00
TOTAL EXECUTIVE AGENCIES	10,552	62.94 %	11,880	63.38 %	10,621	64.22 %
LEGISLATIVE AGENCIES:						
50 Auditor General	21	0.12 %	23	0.12 %	18	0.11 %
51 Zoning	13	0.08	14	0.07	13	0.08
52 City Council	105	0.63	108	0.58	104	0.63
53 Ombudsman	6	0.03	11	0.06	10	0.06
70 City Clerk	25	0.15	31	0.17	31	0.19
71 Election Commission	82	0.49	99	0.53	75	0.45
TOTAL LEGISLATIVE AGENCIES	252	1.50 %	286	1.53 %	251	1.52 %

**NUMBER OF EMPLOYEES BY DEPARTMENT
COMPARATIVE SUMMARY OF BUDGETED POSITIONS
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**

AGENCY	2005-2006		2004-2005		Actual as of 4/2005	
	Mayor's Budget		Budget			
	Number	% of Total	Number	% of Total	Number	% of Total
JUDICIAL AGENCY:						
60 36th District Court	365	2.18%	450	2.40%	467	2.82%
OTHER AGENCY:						
35 Non-Departmental	38	0.23%	52	0.28%	44	0.27%
TOTAL GENERAL CITY AGENCIES	11,207	66.85%	12,668	67.59%	11,383	68.83%
ENTERPRISE AGENCIES:						
(TAX SUPPORTED)						
10 Airport	5	0.03%	23	0.12%	22	0.13%
13 Buildings and Safety Engineering	332	1.98	328	1.75	307	1.86
20 Department Transportation	1,534	9.15	1,716	9.15	1,614	9.76
72 Library	465	2.77	485	2.59	465	2.81
TOTAL TAX SUPPORTED ENTERPRISE AGENCIES	2,336	13.93%	2,552	13.61%	2,408	14.56%
TOTAL TAX SUPPORTED AGENCIES	13,543	80.78%	15,220	81.20%	13,791	83.39%
ENTERPRISE AGENCIES:						
(NONTAX SUPPORTED)						
34 Municipal Parking	117	0.70%	124	0.66%	112	0.68%
41 D.W.S.D. - Water Supply	1,916	11.43	2,097	11.19	1,628	9.85
42 D.W.S.D. - Sewerage Disposal	1,189	7.09	1,302	6.95	1,006	6.08
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	3,222	19.22%	3,523	18.80%	2,746	16.61%
GRAND TOTAL - ALL AGENCIES	16,765	100.00%	18,743	100.00%	16,537	100.00%

- (A) Agency 15 was the Communications and Creative Services Department. The agency consists of the Cable Commission and the Communications and Creative Services Departments in the 2005-2006 Mayor's Proposed Budget.
- (B) The Mayor recommends that the functions of this agency be transferred to the Community Services Department, the Police Department, and the Buildings and Safety Engineering Department.
- (C) The Mayor recommends that the Department of Culture, Arts & Tourism be dissolved at the end of FY 2004-2005, and that the responsibility for the Detroit Film Office be transferred to the Communications Department and Eastern Market operations be transferred to the Community Services Department.
- (D) Agency 19 was the Department of Public Works in fiscal year 2004-2005. The agency consists of the Department of Public Works, Environmental Affairs, Public Lighting, and some functions of the Health Department in the 2005-2006 Mayor's Proposed Budget.
- (E) Agency 36 was the Planning and Development Department. The agency consists of the Planning and Development Department, Office of Neighborhood Commercial Revitalization, and the Department of Workforce Development in the 2005-2006 Mayor's Proposed Budget.
- (F) Agency 39 was the Recreation Department. The agency consists of the Recreation Department, the Senior Citizens Department and the Human Services Department's at-risk programming in the 2005-2006 Mayor's Proposed Budget.
- (G) The Mayor recommends that this newly created department provide asset management services for the City, such as: maintaining City-owned facilities, grounds, and parks; buying and leasing vehicles for City departments, and procuring and managing office space for the City.

COMPARISON OF BUDGETED TO ACTUAL POSITIONS (All Funds)



PENSIONS

The City's budgeted appropriations for pension costs are normally based on contribution rates computed by actuaries for the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS). The contribution rates are applied to the appropriate budgeted salary amounts to determine the budgeted amount of the City's contributions for employees' pensions. A level percent-of-payroll contribution requires that the City's contribution rate provide for the employer normal cost amount plus amortization of the unfunded actuarial accrued liability (UAAL - the difference between the actuarial accrued liability and current assets). Employer normal cost is defined as the value of retirement benefits likely to be paid for employee services being rendered in the current year.

The following schedule is a comparison of the 2005-2006 Mayor's Proposed Budget to the 2004-2005 Budget for appropriations that cover the costs of employees' pensions:

<u>Employee Category</u>	<u>In Millions</u>		
	<u>2005-2006 Mayor's Proposed Budget</u>	<u>2004-2005 Budget</u>	<u>Increase (Decrease)</u>
GRS Employees	\$ 74.1	\$ 116.2	\$ (42.1)
PFRS Employees	97.0	108.4	(11.4)
Total	<u>\$ 171.1</u>	<u>\$ 224.6</u>	<u>\$ (53.5)</u>

The 2005-2006 Mayor's Proposed Budget includes GRS pension costs based on separate contribution rates, determined by the actuaries, for various City funds, such as the General Fund and each Enterprise Fund.

The Mayor's Proposed Budget for 2005-2006 contains reduced pension costs due to:

- The reduction in the number of employees in fiscal year 2004-2005 and the additional reduction in the number of employees in fiscal year 2005-2006,
- The anticipated funding of the UAAL, calculated as of June 30, 2003, through the issuance of \$1.2 billion of pension obligations certificates (POCs) before the end of the fiscal year 2004-2005.

Without the POC financing, the required pension contribution would be approximately \$258.2 million or \$87.1 million more than the amount in the 2005-2006 Mayor's Proposed Budget. The bulk of this amount, \$86.8 million, reflects the amount necessary to fully amortize the UAAL as of June 30, 2004. The remaining \$0.3 million results from the budget having been prepared using estimated rates rather than the actuarial rates, which were not available until April 2005. The POCs have not been issued as of the date of this report.

According to a Budget Department representative, the 2005-2006 Mayor's Proposed Budget includes \$69.3 million to cover the fiscal year 2005-2006 estimated debt service (principal and interest) on the POC financing and the amount necessary to amortize the \$447.7 million increase in the UAAL between June 30, 2003 and June 30, 2004. We requested supporting

documentation for the pension amounts and POC debt service included in the 2005-2006 Mayor's Proposed Budget from the Budget and Finance Departments. However, as of April 21, 2005 the Budget and Finance Departments had not provided the documentation. The Mayor's 2005-2006 Proposed Budget for pensions is significantly understated, unless the City expects to issue more than \$1.2 billion in POCs and/or defers principal, interest, issuance, and administration payments past fiscal year 2005-2006.

The following table compares the 2005-2006 Mayor's Proposed Budget for pension costs to the pension costs based on the actuarial rates for fiscal year 2005-2006. The actuarial rates do not include the effect of the POC financing.

<u>Employee Category</u>	In Millions		
	2005-2006 Mayor's Proposed Budget	2004-2005 Budget	Increase (Decrease)
GRS Employees	\$ 74.1	\$ 120.7	\$ (46.6)
PFRS Employees	97.0	137.5	(40.5)
Total	<u>\$ 171.1</u>	<u>\$ 258.2</u>	<u>\$ (87.1)</u>

The 66th Annual Actuarial Valuation preliminary report, for June 30, 2004, states that the GRS, on an actuarial basis, is under-funded by \$913.7 million. The under-funded status of the system requires that the City's contributions be increased to reach a fully funded status. Of the 26.58% General City's Computed Employer Contribution Rate for fiscal year 2005-2006, 17.35% is due to amortization of the UAAL, including the UAAL expected to be financed by the POCs.

The 63rd Annual Actuarial Valuation, as of June 30, 2004, shows that the PFRS is under funded by \$783.0 million. The employer normal contribution rate is 24.80% for fiscal year 2005-2006. An additional 29.56% contribution is necessary to amortize the UAAL, which includes the effect of market losses and the portion of the UAAL expected to be financed by POCs. The 2005-2006 Mayor's Proposed Budget for the PFRS pension appropriation is based on a contribution rate of 41.45% of the base salary of Policemen and Fire Fighters, which incorporates the under-funded status as of June 30, 2004. This rate differs from the percentage recommended by the actuary of 54.36%.

The GRS and PFRS pension contributions in fiscal year 2005-2006 have been adversely impacted by the decrease in market value of pension fund assets in fiscal years 2001-2002 through 2002-2003 and poor returns for three of the past five years. The low level of City contributions to the PFRS in prior years, based on an over-funded status, also contributed to the problem. In fiscal year 2003-2004 the market value of the GRS and PFRS assets increased and is expected to increase in fiscal year 2004-2005.

The PFRS had excess funding for fiscal year 1998-1999 through fiscal year 2001-2002 as detailed below. The GRS has been under-funded for over twenty years.

In Millions			
Fiscal Year	GRS Excess/(Under) Funding Amount	PFRS Excess/(Under) Funding Amount	Total Excess/(Under) Funding Amount
1998-1999	\$ (143.8)	\$ 394.3	\$ 250.5
1999-2000	(174.6)	622.1	447.5
2000-2001	(267.5)	436.8	169.3
2001-2002	(489.3)	114.8	(374.5)
2002-2003	(732.9)	(516.1)	(1,249.0)
2003-2004	(913.7)	(783.0)	(1,696.7)

The following schedule shows the required annual City contributions to the GRS and to the PFRS for the past ten years through June 30, 2004.

In Millions			
Fiscal Year	GRS	PFRS	Total Contribution
1994-1995	\$ 36.5	\$ 57.8	\$ 94.3
1995-1996	42.5	55.0	97.5
1996-1997	54.7	54.6	109.3
1997-1998	52.7	48.1	100.8
1998-1999	55.7	15.7	71.4
1999-2000	66.7	20.0	86.7
2000-2001	68.1	14.4	82.5
2001-2002	67.8	8.4	76.2
2002-2003	72.9	66.8	139.7
2003-2004	95.9	69.5	165.4

As shown by the preceding schedule, the annual contributions made by the City to the GRS have increased from \$36.5 million in fiscal year 1994-1995 to \$95.9 million in fiscal year 2003-2004. This \$59.4 million increase is due to an increase in covered payroll from fiscal years 1994-1995 to 2001-2002; increases in the contribution rates resulting, in part, from improvements in retirement benefits; and substantial market losses in recent years.

The preceding schedule also shows that the annual contributions made by the City to the PFRS decreased each year from fiscal year 1994-1995 through fiscal year 2001-2002, due to the over-funded status of the PFRS fund during those years. The PFRS annual contribution increased \$61.1 million in fiscal year 2003-2004 from fiscal year 2001-2002. The increased contribution in fiscal year 2003-2004 is primarily due to the market losses experienced and the negotiated agreement in fiscal year 2000-2001, by which a portion of the excess funding of the System was distributed among the City, active employees, and retirees.

The City has incurred interest costs on unpaid pension contributions that were due at the end of the fiscal year. For example, in fiscal year 2003-2004 the City paid the PFRS \$2.9 million in

interest because it did not pay \$35.0 million due the PFRS for fiscal year 2002-2003 on time. The City disputed the pension rates calculated by the actuary but was ordered by the Court to pay the PFRS. The City currently owes the PFRS \$11.4 million for fiscal year 2003-2004. This consists of \$9.8 million for pension contributions and \$1.6 million in interest due. Currently the City has fallen behind on \$30.6 million due the GRS for pension contributions for fiscal year 2004-2005. The 2005-2006 Mayor's Proposed Budget does not provide for any interest payments to the pension funds.

Items Affecting Future Funding Levels

Two factors that affect the City's pension contributions in the coming years are the implementation of the GRS Defined Contribution Plan and the shifting composition of the membership of the two systems.

Although the City plans on full implementation of the GRS Defined Contribution Plan (DC Plan) in fiscal year 2005-2006, the 2005-2006 Mayor's Proposed Budget does not provide for the costs associated with implementing the plan or the impact on the City's pension contributions. The Budget Department and the Finance Department's Pension Administration Activity could not provide us with any estimates of the implementation costs of the DC Plan. When implemented, the DC plan will permit GRS members to convert from the existing pension plan (the Defined Benefit Plan) to the new plan. Over time, it is anticipated that the DC Plan will provide substantial savings to the City. In the short term, however, the DC Plan could result in substantial costs to the City as a result of lowering vesting requirements to four years. It is anticipated that the DC Plan will be implemented on a retroactive basis to 1998 that would result in some current and former employees who are not vested becoming vested. The 2004 preliminary GRS actuarial valuation does not include any assumptions regarding the impact of the DC Plan on the Defined Benefit Plan.

As demonstrated in the following tables, both pension systems have experienced a shift in the composition of their membership. Although the composition of the GRS has remained stable during the past twenty years, thirty years ago, the number of active employees paying into the GRS system was about twice the number of retired members who were receiving benefits. The change in the PFRS membership has been more dramatic. Thirty years ago, the ratio of active employees to retired members was approximately three to two. By June 30, 2004, active members who were paying into the system represented only 37.8 percent of the total membership. Layoffs or reduction in the City's workforce through attrition and other measures could further erode the balance between members contributing to the system and members receiving benefits from the system. Membership composition is significant because, as the number of active employees paying into the system declines relative to the number of retired members receiving benefits, the City may be forced to further increase contributions to the pension funds to maintain pension benefits.

General Retirement System

Fiscal Year	Membership			Percentage	
	Active	Retired	Total	Active	Retired
1973-1974	17,930	8,377	26,307	68.2 %	31.8 %
1983-1984	13,172	11,643	24,815	53.1	46.9
1988-1989	13,554	11,734	25,288	53.6	46.4
1993-1994	11,382	11,649	23,031	49.4	50.6
1998-1999	11,987	11,537	23,524	51.0	49.0
2001-2002	12,639	11,363	24,002	52.7	47.3
2002-2003	12,833	11,322	24,155	53.1	46.9
2003-2004	11,791	11,311	23,102	51.0	49.0

Policemen and Firemen Retirement System

Fiscal Year	Membership			Percentage	
	Active	Retired	Total	Active	Retired
1973-1974	7,356	4,873	12,229	60.2 %	39.8 %
1983-1984	5,209	5,986	11,195	46.5	53.5
1988-1989	6,280	6,496	12,776	49.2	50.8
1993-1994	5,162	7,169	12,331	41.9	58.1
1998-1999	5,329	7,883	13,212	40.3	59.7
2001-2002	5,382	8,179	13,561	39.7	60.3
2002-2003	5,257	8,277	13,534	38.8	61.2
2003-2004	5,060	8,328	13,388	37.8	62.2

Conclusion

Our analysis indicates that the \$171.1 million budgeted for pension costs in the 2005-2006 Mayor's Proposed Budget is not sufficient to fund the City's projected required pension contributions unless:

- The POC financing is completed prior to June 30, 2005;
- All required contributions to both systems for the current fiscal year are funded by June 30, 2005;
- The projected reduction in the number of employees is realized;
- There are no costs associated with the implementation of the Defined Contribution Plan or with the transfer of former and existing employees from the Defined Benefit Plan to the Defined Contribution Plan; and
- POC financing includes additional amounts for the \$447.7 million increase in the UAAL between June 30, 2003 and June 30, 2004, and defers principal, interest, issuance, and administration payments past fiscal year 2005-2006.

FRINGE BENEFITS

The City provides both nonnegotiable (those regulated by either Federal or State law) and negotiable fringe benefits to both civilian and uniform employees, as well as to retired employees.

The 2005-2006 Mayor's Proposed Budget includes \$290.4 million for fringe benefits (excluding pensions), which is an \$82.6 million or 22.1% decrease from the \$373.0 million included in the 2004-2005 budget. Shown below is a trend analysis of total fringe benefits (excluding pensions) appropriations for fiscal years 1996-1997 to 2005-2006.

<u>Fiscal Year</u>	<u>Fringe Benefits (In Millions)</u>	<u>Percentage Increase/(Decrease) From Prior Year</u>
1996-1997	\$ 236.7	
1997-1998	241.8	2.2 %
1998-1999	247.8	2.5
1999-2000	261.1	5.4
2000-2001	263.5	0.9
2001-2002	290.8	10.4
2002-2003	303.1	4.2
2003-2004	345.1	13.9
2004-2005	373.0	8.1
2005-2006	290.4	(22.1)

The fringe benefit budget for fiscal year 2005-2006 is comprised of \$64.6 million of legally required benefits and \$225.8 million of negotiable fringe benefits. Schedule A compares the budgeted fringe benefits and pension costs, in total, for fiscal year 2004-2005 and the Mayor's 2005-2006 Proposed Budget.

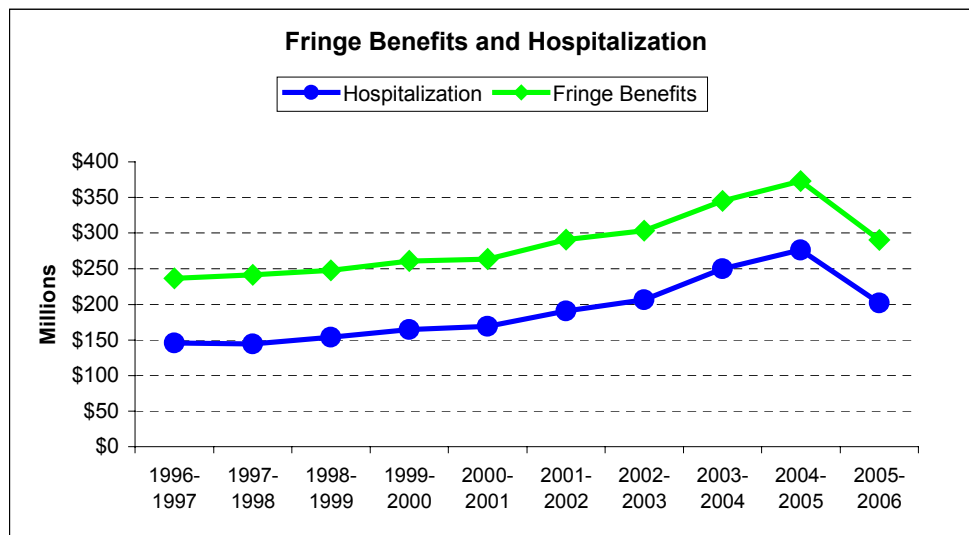
The Mayor's Proposed \$225.8 million budget for negotiable fringe benefits is understated by at least \$51.5 million, and may be understated by as much as \$100.0 million as follows:

- The \$47.0 million budgeted reduction for savings, based on the assumption that benefit plans will be renegotiated and approved by the unions by July 1, 2005, may not be realized.
- The assumption that the City will transfer the Department of Transportation (DDOT) to the Detroit Area Regional Transit Authority, and the Civic Center to a newly created regional authority by July 1, 2005 is unlikely. The amount of negotiated fringe benefit savings identified from these transfers is \$4.5 million.

Because the Budget Department was not able to provide us with documentation for the budgeted fringe benefits for use in our analysis, we were unable to determine whether the \$47.0 million increase in health plan costs mentioned in the Mayor's Budget Address for fiscal year 2005-2006 was incorporated into the proposed budget. It appears that it was not. In early April 2005, Mercer Human Resources Consulting (Mercer) and the Deputy Mayor presented a report on potential cost savings in the City's employee benefit plans to the City Council. The summary presented includes an estimate of the cost of fiscal year 2005-2006 healthcare benefits. Mercer's estimate, based on financial information provided by the City's vendors, led to the

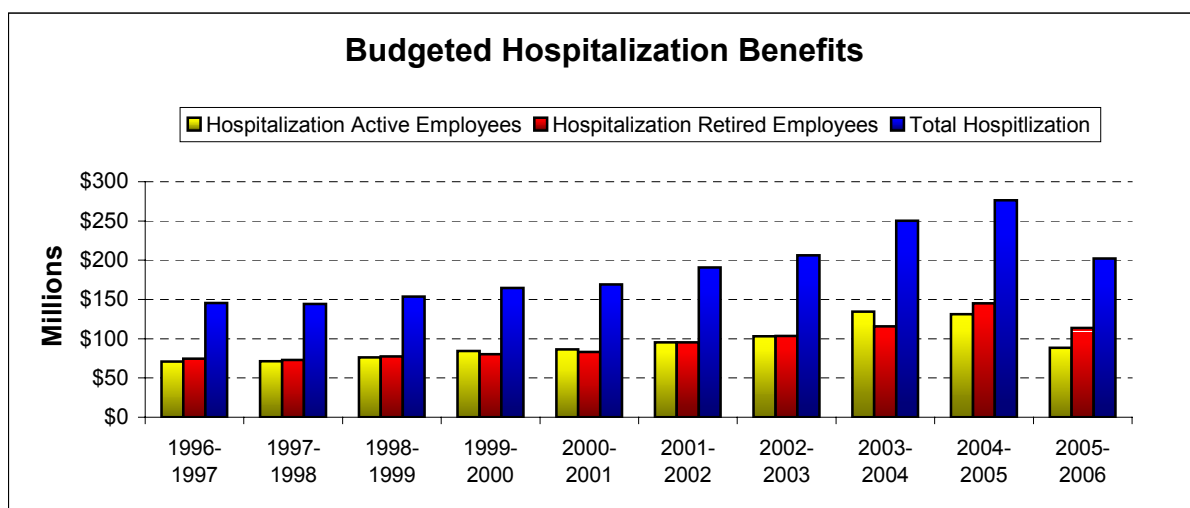
conclusion that the cost of healthcare for fiscal year 2005-2006 would be \$338.6 million.¹ Mercer's estimate included the assumption that the health plans remain as currently designed with 16,000 active and 20,000 retired employees. These assumptions should be considered for the 2005-2006 fiscal year.

As shown below, the trend in overall fringe benefit costs is directly proportional to cost changes in hospitalization benefits. Therefore, the overall reduction in budgeted fringe benefit funding has resulted in a decrease of \$74.4 million in budgeted hospitalization benefit appropriations.



Hospitalization

The budgeted expenditures for hospitalization decreased 26.9% from fiscal year 2004-2005. A total of \$202.2 million (\$88.4 million for active employees and \$113.8 million for retired employees) is budgeted for fiscal year 2005-2006 compared to \$276.5 million (\$131.4 million for active employees and \$145.1 million for retired employees) in the 2004-2005 budget.



¹ Mercer's estimate includes medical, dental, vision, and life insurance. It does not include disability, longevity, death benefit, retirement sick leave, income protection, and miscellaneous fringe benefits provided by the City.

Hospitalization appropriations for active City employees decreased \$42.9 million or 32.7%, and decreased \$31.4 million or 21.6% for retired employees. This reduction in active employee appropriations is due to the reduction in the number of active employees, and the proposed savings from restructuring the health benefits to a less expensive healthcare plan. It appears unlikely that the City will realize these savings during the 2005-2006 fiscal year. The proposed healthcare benefit restructuring will require union approval, which may not occur by July 1, 2005. The proposed budget also assumes that the healthcare plan for retirees will be renegotiated by the beginning of the new fiscal year. The assumption that retiree hospitalization benefits will decline; especially while the number of retirees remains stable in the 2005-2006 fiscal year is unreasonable.

Shown below is an analysis of hospitalization appropriations for fiscal years 1996-1997 to 2004-2005. The City's hospitalization appropriation has increased steadily from the 1997-1998 Budget due to rising health care costs; the 26.9% reduction in hospitalization for fiscal year 2005-2006 is based on desired savings.

Fiscal Year	Dollars In Millions				Percentage Increase (Decrease) From Prior Year
	Hospitalization Active Employees	Hospitalization Retired Employees	Total Hospitalization	Increase (Decrease)	
1996-1997	\$ 71.1	\$ 74.5	\$ 145.6		
1997-1998	71.3	73.1	144.4	\$ (1.2)	(0.8) %
1998-1999	76.2	77.5	153.7	9.3	6.4
1999-2000	84.2	80.4	164.6	10.9	7.1
2000-2001	86.2	83.1	169.3	4.7	2.9
2001-2002	95.5	95.4	190.9	21.6	12.8
2002-2003	103.0	103.4	206.4	15.5	8.1
2003-2004	134.5	115.9	250.4	44.0	21.3
2004-2005	131.4	145.2	276.6	26.2	10.5
2005-2006	88.4	113.8	202.2	(74.4)	(26.9)

Social Security (FICA)

The 2005-2006 Mayor's Proposed Budget includes a decrease of \$5.7 million for social security taxes, which total \$38.4 million compared to \$44.1 million in the 2004-2005 budget. This decrease results from the decrease in the number of budgeted positions.

Workers' Compensation

The 2005-2006 Mayor's Proposed Budget of \$21.1 million includes a decrease of \$0.4 million for workers compensation or 1.7% from the \$21.4 million in the 2004-2005 Budget.

Unemployment Compensation

The 2005-2006 Mayor's Proposed Budget includes \$5.2 million for unemployment compensation as compared to the \$3.3 million included in the 2004-2005 budget. This 55.6% increase is due to the expected increase in contributions that will be required due to layoffs.

General City Employees

General City, including General Fund, Grant Fund employees', and Police and Fire fringe benefits were analyzed separately from the citywide total because they have a significant impact on the City's expenditures. Fringe benefits for General City employees account for \$222.3 million of the total \$290.4 million budgeted for fringe benefits.

Schedule B compares the Mayor's 2005-2006 proposed fringe benefits for both civilian and uniform employees to the 2004-2005 budgeted fringe benefits. Of the \$222.3 million budgeted, \$96.7 million is for General City civilian fringe benefits and \$125.6 million is for Police and Fire employee fringe benefits. This is a \$62.9 million decrease from the \$285.2 million budgeted for fiscal year 2004-2005.

The Mayor's proposed budget for Police and Fire retired employees hospitalization is \$68.1 million compared to the \$26.9 million for civilian employees. The disparity is due primarily to the City's 100.0% contribution for healthcare costs for uniform employees, and because uniform employees can retire after 25 years of service versus 30 years of service for civilian employees.

Schedule C shows the same comparison as Schedule B, but on a per budgeted employee basis. Schedule C shows the anticipated cost savings on the renegotiated fringe benefit plans per budgeted position, with a 16.0% reduction in civilian fringe benefits, an 18.0% reduction in Police fringe benefits, and a 10.0% reduction in Fire fringe benefits.

Conclusion

The Mayor's 2005-2006 Proposed Budget does not fully fund the estimated cost of the City's fringe benefits. The proposed fringe benefit budget recognizes cost savings that may not be realized in the 2005-2006 fiscal year. Healthcare related fringe benefits are under-funded by a minimum \$51.5 million, possibly by as much as \$100.0 million.

**EMPLOYEE BENEFITS COST SCHEDULE
FRINGE BENEFITS AND PENSION
CIVILIAN AND UNIFORM EMPLOYEES AND ASSOCIATED RETIREES
OF THE CITY OF DETROIT**

BENEFIT CATEGORY	Budgeted Employee Benefits			
	2005-2006 Mayor's Budget	2004-2005 Budget	Increase (Decrease)	% Increase (% Decrease)
Pensions	\$ 171,053,955	\$ 224,594,428	\$ (53,540,473)	(23.84) %
<u>Nonnegotiable Fringe Benefits:</u> (Legally Required)				
Social Security (FICA)	\$ 38,386,954	\$ 44,103,020	\$ (5,716,066)	(12.96) %
Unemployment Compensation	5,171,665	3,323,748	1,847,917	55.60
Workers' Compensation	21,066,263	21,440,101	(373,838)	(1.74)
Total Legally Required Fringe Benefits	\$ 64,624,882	\$ 68,866,869	(\$4,241,987)	(6.16) %
<u>Negotiable Fringe Benefits:</u>				
Hospitalization:				
For Employees	\$ 88,425,260	\$ 131,367,280	\$ (42,942,020)	(32.69) %
For Retirees	113,797,852	145,151,736	(31,353,884)	(21.60)
Dental:				
For Employees	4,515,208	5,260,064	(744,856)	(14.16)
For Retirees	6,196,617	5,882,883	313,734	5.33
Eye Care:				
For Employees	1,848,036	1,459,917	388,119	26.59
For Retirees	1,910,031	1,972,823	(62,792)	(3.18)
Disability Medical	1,354,968	1,524,640	(169,672)	(11.13)
Longevity	10,346,515	9,003,073	1,343,442	14.92
Death Benefit	53,141	-	53,141	0.00 ^A
Group Life Insurance	1,596,531	1,706,733	(110,202)	(6.46)
Retirement Sick Leave	7,872,192	7,248,671	623,521	8.60
Income Protection	1,935,474	2,268,408	(332,934)	(14.68)
Miscellaneous	4,468,516	4,029,887	438,629	10.88
Fringe Clearing Account	(18,513,373)	(12,748,541)	(5,764,832)	45.22
Total Negotiable Fringe Benefits	\$ 225,806,968	\$ 304,127,574	\$ (78,320,606)	(25.75) %
Total Fringe Benefit Costs Excluding Pensions	\$ 290,431,850	\$ 372,994,443	\$ (82,562,593)	(22.14) %
Total Fringes and Pension	\$ 461,485,805	\$ 597,588,871	\$ (136,103,066)	(22.78) %

^A Fiscal year 2004-2005 did not include a Death Benefit, therefore we were unable to determine an increase.

BUDGETED FRINGE BENEFIT COST SCHEDULE
(Excluding Pensions)
CIVILIAN AND UNIFORM EMPLOYEES AND ASSOCIATED RETIREES
OF THE GENERAL AND GRANT FUNDS

<u>BENEFIT CATEGORY</u>	<u>Budgeted Fringe Benefit Amounts</u> <u>For Civilian Employees (A)</u>		<u>Budgeted Fringe Benefit Amounts</u> <u>For Uniform Employees</u>	
	<u>2005-2006</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2004-2005</u>
<u>Nonnegotiable Fringe Benefits:</u> (Legally Required)				
Social Security (FICA)	\$ 18,689,702	\$ 23,670,395	\$ 1,335,719	\$ 1,464,636
Unemployment Compensation	4,348,244	2,992,362	-	-
Workers' Compensation	10,131,227	10,347,955	-	-
Total Legally Required Fringe Benefits	<u>\$ 33,169,173</u>	<u>\$ 37,010,712</u>	<u>\$ 1,335,719</u>	<u>\$ 1,464,636</u>
<u>Negotiable Fringe Benefits:</u>				
<u>Hospitalization:</u>				
For Employees	\$ 26,858,991	\$ 44,279,104	\$ 35,379,641	\$ 48,294,841
For Retirees	26,907,278	37,001,030	68,100,021	85,459,166
<u>Dental:</u>				
For Employees	1,582,555	1,982,824	1,416,614	1,758,350
For Retirees	2,382,728	1,754,890	2,575,830	3,101,483
<u>Eye Care:</u>				
For Employees	438,672	504,689	1,017,411	522,285
For Retirees	476,978	515,115	1,117,209	1,174,695
Disability Medical	-	-	1,354,968	1,524,640
Longevity	1,978,848	2,196,435	5,513,208	5,163,151
Death Benefit	53,141	-	-	-
Group Life Insurance	651,622	837,767	719,962	668,320
Retirement Sick Leave	2,123,199	1,984,890	4,365,377	4,199,319
Income Protection (B)	726,975	1,447,850	-	-
Employee Bonus	-	-	-	-
Miscellaneous	(640,991)	(194,722)	2,690,183	2,548,263
Total Negotiable Fringe Benefits	<u>\$ 63,539,996</u>	<u>\$ 92,309,872</u>	<u>\$ 124,250,424</u>	<u>\$ 154,414,513</u>
Total Fringe Benefit Costs Excluding Pensions	<u>\$ 96,709,169</u>	<u>\$ 129,320,584</u>	<u>\$ 125,586,143</u>	<u>\$ 155,879,149</u>

(A) - Includes civilian employees of the General and Grant Funds.

(B) - Income Protection does not apply to Uniform Police and Fire employees.

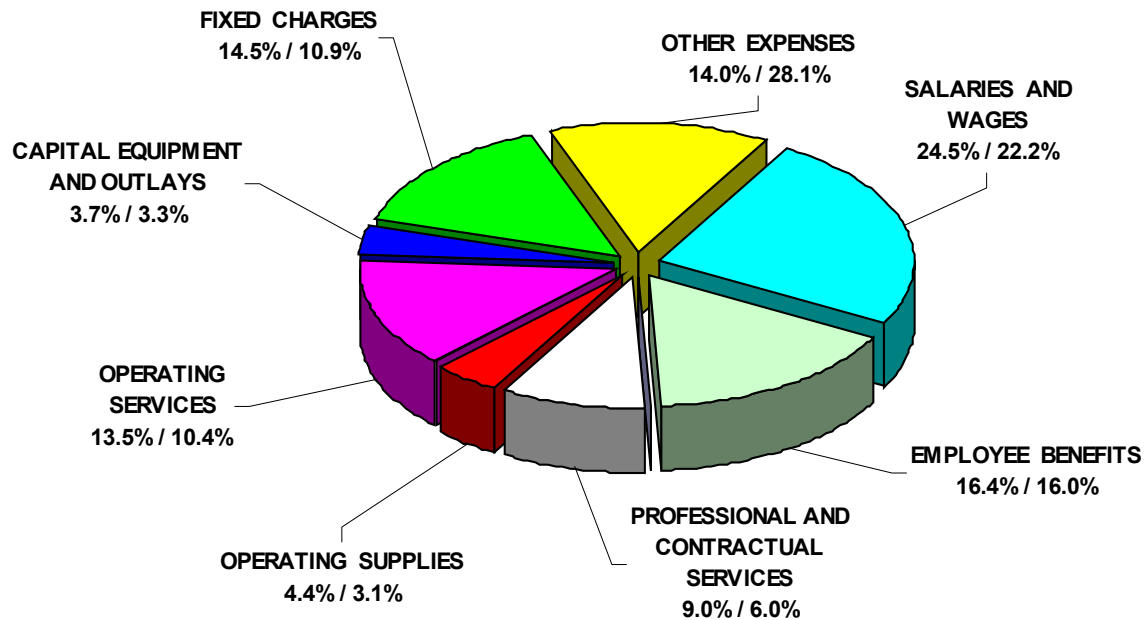
**BUDGETED AMOUNT PER BUDGETED POSITION
OF THE GENERAL AND GRANT FUNDS
(Excluding Pensions)**

BENEFIT CATEGORY	Civilian (A)		Police-Uniform		Fire-Uniform	
	<u>2005-2006</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2004-2005</u>
Nonnegotiable Fringe Benefits: (Legally Required)						
Social Security (FICA)	\$ 3,210.74	\$ 3,346.11	\$ 215.67	\$ 225.98	\$ 333.69	\$ 350.75
Unemployment Compensation	746.99	423.01	-	-	-	-
Workers' Compensation	1,740.46	1,462.82	-	-	-	-
Total Legally Required Fringe Benefits	<u>\$ 5,698.19</u>	<u>\$ 5,231.94</u>	<u>\$ 215.67</u>	<u>\$ 225.98</u>	<u>\$ 333.69</u>	<u>\$ 350.75</u>
<u>Negotiable Fringe Benefits:</u>						
Hospitalization:						
For Employees	\$ 4,614.15	\$ 6,259.42	\$ 6,346.12	\$ 8,399.20	\$ 6,800.14	\$ 8,723.20
For Retirees	4,622.45	5,230.57	12,340.52	15,247.29	12,686.13	14,282.31
Dental:						
For Employees	271.87	280.30	245.71	327.73	299.27	251.83
For Retirees	409.33	248.08	464.69	560.58	486.55	496.67
Eye Care:						
For Employees	75.36	71.34	178.41	84.63	208.69	112.95
For Retirees	81.94	72.82	197.89	207.21	222.79	203.44
Disability Medical	-	-	241.96	264.34	263.93	277.85
Longevity	339.95	310.49	930.53	835.59	1,247.50	1,119.62
Death Benefit	9.13	-	-	-	-	-
Group Life Insurance	111.94	118.43	121.23	128.64	163.83	83.48
Retirement Sick Leave	364.75	280.59	774.19	702.53	867.46	841.87
Income Protection (B)	124.89	204.67	-	-	-	-
Miscellaneous	(110.12)	(27.53)	14.63	17.19	2,022.30	1,737.96
Total Negotiable Fringe Benefits	<u>\$ 10,915.64</u>	<u>\$ 13,049.18</u>	<u>\$ 21,855.88</u>	<u>\$ 26,774.93</u>	<u>\$ 25,268.59</u>	<u>\$ 28,131.18</u>
Total Fringe Benefit Costs Per Budgeted Position (Excluding Pensions)	<u>\$ 16,613.83</u>	<u>\$ 18,281.12</u>	<u>\$ 22,071.55</u>	<u>\$ 27,000.91</u>	<u>\$ 25,602.28</u>	<u>\$ 28,481.93</u>

(A) - Includes civilian employees of the General and Grant Funds.

(B) - Income Protection does not apply to Uniform Police and Fire employees.

APPROPRIATIONS BY MAJOR OBJECT
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET



MAJOR OBJECT	2005-2006 MAYOR'S BUDGET	2004-2005 BUDGET	INCREASE (DECREASE)	PERCENT CHANGE
SALARIES AND WAGES	\$ 689,209,278	\$ 830,028,308	\$ (140,819,030)	(16.97)%
EMPLOYEE BENEFITS	461,485,805	597,588,871	(136,103,066)	(22.78)
PROFESSIONAL AND CONTRACTUAL SERVICES	254,217,922	224,467,168	29,750,754	13.25
OPERATING SUPPLIES	124,175,502	116,567,132	7,608,370	6.53
OPERATING SERVICES	378,476,138	390,328,223	(11,852,085)	(3.04)
CAPITAL EQUIPMENT	105,073,072	121,656,467	(16,583,395)	(13.63)
FIXED CHARGES	409,235,513	408,391,157	844,356	0.21
OTHER EXPENSES	394,521,248	1,053,197,749	(658,676,501)	(62.54)
TOTAL	\$2,816,394,478	\$3,742,225,075	\$ (925,830,597)	(24.74)%

APPROPRIATIONS BY AGENCY
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET

AGENCY	2005-2006 Mayor's Budget		2004-2005 Budget	
	Amount	Percent of Total	Amount	Percent of Total
GENERAL CITY AGENCIES:				
EXECUTIVE AGENCIES:				
12 Budget	\$ 2,508,882	0.09%	\$ 3,355,110	0.09%
14 Civic Center	19,033,715	0.68	27,067,976	0.72
15 Communication Department (A)	2,597,322	0.09	2,971,190	0.08
16 Consumer Affairs (B)	-	0.00	1,306,180	0.03
17 Department of Culture, Arts and Tourism (C)	-	0.00	2,134,462	0.06
19 Municipal and Environmental Services (D)	234,078,451	8.31	204,480,548	5.46
21 Detroit Workforce Development Dept.	59,121,997	2.10	43,586,185	1.16
22 Environmental Affairs (D)	-	0.00	2,278,559	0.06
23 Finance	30,747,613	1.09	46,229,773	1.24
24 Fire	184,221,297	6.54	206,934,197	5.53
25 Dept. of Health and Wellness Promotion	85,663,109	3.04	98,140,076	2.62
26 Historical	2,317,181	0.08	4,905,865	0.13
28 Human Resources	23,225,186	0.82	31,894,667	0.85
29 Human Rights	812,897	0.03	2,193,726	0.06
30 Human Services	75,377,830	2.68	74,453,890	1.99
31 Information Technology Services	25,320,249	0.90	29,238,454	0.78
32 Law	17,576,547	0.62	25,269,165	0.68
33 Mayor's Office	8,771,896	0.31	10,510,110	0.28
36 Economic Development (E)	62,717,004	2.23	65,187,661	1.74
37 Police	434,119,113	15.41	488,827,824	13.06
38 Public Lighting (D)	-	0.00	71,463,435	1.91
39 Community Services Department (F)	29,585,541	1.05	53,539,906	1.43
40 Senior Citizens (F)	-	0.00	1,392,709	0.04
44 Zoological Institute	12,750,584	0.45	17,149,738	0.46
45 Department of Administrative Hearings	2,535,851	0.09	2,321,167	0.06
46 Detroit Office of Homeland Security	3,136,730	0.11	730,254	0.02
47 General Services Department (G)	31,375,680	1.11	-	0.00
TOTAL EXECUTIVE AGENCIES	\$ 1,347,594,675	47.85%	\$ 1,517,562,827	40.55%
LEGISLATIVE AGENCIES:				
50 Auditor General	\$ 2,095,775	0.07%	\$ 3,095,475	0.08%
51 Zoning	706,709	0.03	904,120	0.02
52 City Council	12,134,370	0.43	16,930,373	0.45
53 Ombudsman	818,870	0.03	1,451,687	0.04
70 City Clerk	3,506,246	0.12	4,350,957	0.12
71 Election Commission	9,661,994	0.34	11,108,832	0.30
TOTAL LEGISLATIVE AGENCIES	\$ 28,923,964	1.03%	\$ 37,841,444	1.01%

**APPROPRIATIONS BY AGENCY
2005-2006 MAYOR'S BUDGET / 2004-2005 BUDGET**

AGENCY	2005-2006 Mayor's Budget		2004-2005 Budget	
	Amount	Percent of Total	Amount	Percent of Total
JUDICIAL AGENCY:				
60 36th District Court	\$ 38,788,202	1.38%	\$ 49,354,273	1.32%
OTHER AGENCIES:				
35 Non-Departmental	\$ 360,916,762	12.81%	\$ 330,368,396	8.83%
TOTAL GENERAL AGENCIES	\$ 1,776,223,603	63.07%	\$ 1,935,126,940	51.71%
18 Debt Service Fund	\$ 62,934,661	2.24%	\$ 70,599,475	1.89%
ENTERPRISE FUNDS:				
(TAX SUPPORTED)				
10 Airport	\$ 1,087,327	0.04%	\$ 5,663,466	0.15%
13 Buildings and Safety Engineering	37,712,522	1.34	37,119,095	1.00
20 Transportation	149,362,883	5.30	171,169,345	4.57
72 Library	49,116,363	1.74	43,189,441	1.15
TOTAL TAX SUPPORTED ENTERPRISE FUNDS	\$ 237,279,095	8.42%	\$ 257,141,347	6.87%
TOTAL TAX SUPPORTED FUNDS	\$ 2,076,437,359	73.73%	\$ 2,262,867,762	60.47%
ENTERPRISE AGENCIES:				
(NONTAX SUPPORTED)				
34 Municipal Parking	\$ 43,736,967	1.55%	\$ 48,225,913	1.29%
41 D.W.S.D. - Water Supply	303,272,036	10.77	700,721,800	18.72
42 D.W.S.D. - Sewage Disposal	392,948,116	13.95	730,409,600	19.52
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	\$ 739,957,119	26.27%	\$ 1,479,357,313	39.53%
GRAND TOTAL - ALL AGENCIES	\$ 2,816,394,478	100.00%	\$ 3,742,225,075	100.00%

- (A) Agency 15 was the Communications and Creative Services Department. The agency consists of the Cable Commission and the Communications and Creative Service Departments in the 2005-2006 Mayor's Proposed Budget.
- (B) The Mayor recommends that the functions of this agency be transferred to the Community Services Department, the Police Department, and the Buildings and Safety Engineering Department.
- (C) The Mayor recommends that the Department of Culture, Arts & Tourism be dissolved at the end of FY 2004-2005, and that the responsibility for the Detroit Film Office be transferred to the Communication Department and Eastern Market operations be transferred to the Community Services Department.
- (D) Agency 19 was the Department of Public Works in fiscal year 2004-2005. The agency consists of the Department of Public Works, Environmental Affairs, Public Lighting, and some functions of the Health Department in the 2005-2006 Mayor's Proposed Budget.
- (E) Agency 36 was the Planning and Development Department. The agency consists of the Planning and Development Department, Office of Neighborhood Commercial Revitalization, and the Department of Workforce Development in the 2005-2006 Mayor's Proposed Budget.
- (F) Agency 39 was the Recreation Department. The agency consists of the Recreation Department, the Senior Citizens Department and the Human Services Department's at-risk programming in the 2005-2006 Mayor's Proposed Budget.
- (G) The Mayor recommends that this newly created department provide asset management services for the City, such as: maintaining City-owned facilities, grounds, and parks, buying and leasing vehicles for City departments, procuring and managing office space for the City.

SUMMARY OF EMPLOYEE TURNOVER SAVINGS
2005-2006 MAYOR'S PROPOSED BUDGET

Employee turnover savings is the dollar estimate of the savings in appropriations resulting from positions included in the budget that may not require funding during some period of the fiscal year.

The Budget Department's estimate of employee turnover savings represents appropriation amounts not included in the 2005-2006 Mayor's Proposed Budget, even though the positions to which the savings relate remain in the budget. For example, an unfilled budgeted position, resulting from the retirement of an employee, generates turnover savings until the position is filled.

The total estimated employee turnover savings projected for fiscal year 2005-2006 is \$30.9 million. This estimate represents a \$6.1 million, or 24.6% increase from the 2004-2005 Budget of \$24.8 million. Salaries and wages, fringe benefits, and most employer pension contributions are the costs included in the calculation, while overtime and longevity are excluded.

The table below lists the estimated employee turnover savings by agency.

Agency Number	AGENCY	2005-2006 Mayor's Proposed Budget
23	Finance Department	\$ 178,463
24	Fire Department	5,592,261
25	Department of Health and Wellness Promotion	1,592,198
28	Human Resource Department	67,980
37	Police Department	23,382,960
44	Zoological Institute	83,895
	Total Estimated Employee Turnover Savings	<u>\$ 30,897,757</u>

The following schedule provides our estimate of the number of position equivalents represented by the Budget Department's estimate of turnover savings.

Approximate Position Equivalents Included in the Budget But Not Funded Due to Estimated Turnover Savings in 2005-2006	
Civilian Positions	58
Uniform Positions-Fire	44
Uniform Positions-Police	<u>307</u>
Total	<u>409</u>

Our analysis indicates that there are 16,765 budgeted positions included in the 2005-2006 Mayor's Proposed Budget but funding for only 16,356 positions (16,765 - 409), as compared to the 2004-2005 Budget, in which there was funding for 18,417 positions (18,705 - 288).

In addition, we note there are 1,978 fewer budgeted positions (16,765 versus 18,743) in the 2005-2006 Mayor's Proposed Budget, as compared to the 2004-2005 Budget.